J.C. Penney Company, Inc.

1972 Annual Report

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Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 a.m. Tuesday, May 15, 1973, at the Washington Plaza Hotel, Fifth and Westlake, Seattle, Washington. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 9, 1973. Your prompt attention to the proxy statement will be appreciated.

On the Cover

Five different girls, five different looks, symbolizing the *individuality* that characterizes today's so-called mass market, which we serve.

(Opposite) The casual look. The spectator look. The contemporary look. By any name, fashion starts with the way Americans live—easy, relaxed, comfortable, and natural.

Financial Highlights (In millions)

	1972	1971
Sales	$5,529.6	$4,812.2
Per cent increase from prior year	14.9	10.5
Net income	162.6	135.7
Per cent increase from prior year	19.8	18.9
Per cent of sales	2.9	2.8
Per cent of stockholders' equity	16.4	18.0
Net income per share—primary	2.86	2.46
—fully diluted	2.86	2.43
Dividends per share	1.05	1.01
Capital expenditures	185.5	237.2

To Our Stockholders


William M. Batten


Jack B. Jackson

Sales and earnings of the Penney Company again rose to record highs in the 1972 fiscal year. For the first time in our history, annual sales exceeded $5 billion, reaching $5.5 billion, a gain of 14.9 per cent over 1971. Net income increased 19.8 per cent to $162.6 million from $135.7 million. This amounted to primary net income per share of $2.86, compared with $2.46 in 1971. On a fully diluted basis, earnings per share also totaled $2.86, against $2.43 the previous year.

Two key factors in the 1972 performance were sales growth and expense control. The Company mounted the most aggressive sales promotion program in its history in order to increase volume and earnings while operating within the frozen markup provision of the Administration's Phase II program. Fundamental to the sales increase was our success in attuning merchandise assortments to customers' needs and wants.

As a result of the strong profit performance, the Board of Directors on December 27 voted an increase in the regular quarterly dividend from 26 cents to 27 cents per share starting with the February 1973 payment. This was the maximum whole-cent increase under the 4 per cent guideline established by the President's Committee on Interest and Dividends.

Fiscal 1972 marked the first year that sales of full line stores exceeded those of soft line units. Full line stores had a 28.7 per cent sales gain, and we expect these stores to provide the most significant portion of our future sales and profit growth. Sales of soft line stores also were higher, although 35 fewer units were open at year end 1972. Despite their age, soft line stores on the average continued to perform well in both sales and profits, and we anticipate little, if any, deterioration in their results in the years immediately ahead.

Catalog had another strong sales and profit year in 1972 after first becoming profitable in 1971. The catalog performance, which resulted from the continued maturing of all phases of the operation, has prompted a re-examination of the opening schedule for the projected third catalog distribution center in Columbus, Ohio. If construction schedules can be met, the opening will be advanced to 1974 from 1975.

The Treasury stores still had a small loss in 1972, but operating results improved, and we expect this division to be profitable in 1973. Expansion beyond 1973 will continue at a somewhat slower pace, with smaller units. Consumer financial services had a profit increase, while Thrift Drug's profit was about the same as that of the prior year. Supermarkets experienced a decline in earnings.

The Company's European operations recorded a loss about equal to that of 1971. Although some improvements in operating results were achieved, these were offset by heavy start-up costs associated with the 1972 expansion, which increased store net selling space by approximately 38 per cent.

A number of steps have been taken to strengthen our European operations, and we expect to report an

improvement in 1973. Included among these steps is a recent reorganization designed to provide more effective management direction by placing store operations in domestic subsidiaries. This change aids in utilizing Penney's experience and expertise in the operation of retail stores. Expansion in Europe has been slowed to allow us to solve our operational difficulties.

The Company's expansion program for fiscal 1973 contemplates capital expenditures in excess of $200 million. Store space will be increased by approximately 5.5 million gross square feet. This will include 30 JCPenney stores, five The Treasury stores, 30 drug stores, and three European stores. JCP Realty, Inc., a real estate subsidiary, has participated in the development of two shopping centers in which we will open stores in 1973.

Each new store challenges our ability to attract new customers and increase sales to our current customers. With these objectives, we are devoting more and more attention to store architecture, decor, fixturing, display, and packaging. These elements help provide an exciting showcase for our merchandise, which in virtually all categories reflects our stress on fashion.

Of prime importance to our business, fashion in its broadest sense is the theme of this report to stockholders. It is also a focal point of our advertising. National advertising, begun last year, has been effective and will be an integral part of this year's program.

Although our attention is focused increasingly on the fashion dimension in merchandising, we are ever mindful that quality and value are the foundation of our business. Our concern for quality includes a concern for the quality of life.

We have long recognized that societal concerns are compatible with profit objectives. Indeed, profit not only is the fuel that keeps us going but also enables us, via our taxes, to support governmental efforts to improve the quality of life. In 1972, our taxes amounted to $247.6 million, or $4.32 per share.

We realize, of course, that our responsibility to society extends beyond the payment of taxes. Fulfilling this responsibility in our day-to-day activities remains an on-going objective. Our approach is to make our commitment to social progress an integral part of doing business. For example, in all departments, facilities, and geographic areas, the goals of our Affirmative Action Program are to reflect the representation of minorities in the general population across all levels of management and non-management and to provide increased management opportunities for women. Our management people are being appraised on their records of achievement in implementing the program.

We relate our organizational competencies to social objectives in a variety of other ways. We work with more than 30 minority-owned suppliers, maintain working accounts in 11 minority-owned banks, and place advertising with minority-directed advertising media. As regards our impact on the physical environment, we are increasing our use of hydraulic waste compaction and have initiated tests in Atlanta and Houston of the feasibility of recycling compacted store paper waste.

Fiscal 1972 saw continued emphasis on refining and expanding the major components of our business and developing plans for future growth. We intend to continue our aggressive overall expansion in the years ahead. Planned store space additions for 1974 are about the same as those expected for 1973, but could reach somewhat higher levels in succeeding years. This would result in part from the implementation of recently developed plans for three store prototypes designed to serve small and medium size markets, where JCPenney has been traditionally strong. Most of these new stores will replace existing soft line stores. Patterned after seven test units, these stores will combine features of JCPenney full line and The Treasury stores, and each will have a catalog sales center. The first of these is expected to open in 1974.

In a move aimed at broadening another basic component of our business, we announced in February 1973 a proposed merger into Penney of The Educator & Executive Company of Columbus, Ohio, which markets automobile and homeowners insurance.

Several factors lead us to be optimistic as we move into 1973. We have the momentum generated by two consecutive years of strong sales and earnings growth. We have a balanced, aggressive promotional program We have proven merchandise assortments. We will, of course, be operating within Phase III of the President's economic program, which establishes a system relying primarily on voluntary cooperation but still designed to restrain price increases. In our business, however, it is the pressure of competition that holds prices down. Our prices last year were up less than 1 per cent on the average, and so inflation accounted for virtually none of our 1972 sales gain.

Looking into the future of the Penney Company, we are putting more and more emphasis on strategic planning. Through many types of continuing research—consumer panels, Company image studies, social research into changing lifestyles and behavior—we are developing information to enable us to serve consumers better. We know that our future success will be closely related to the quality of today's planning.

Still another application of the word *quality* helps us describe the single most important factor in our future—the quality of our people. We take this opportunity to thank our Penney people and our suppliers and to ask for their continued best efforts. Nothing less will permit us to meet our goals in 1973.

William M. Batten
Chairman of the Board

Jack B. Jackson
President

The Fashion Dimension in JCPenney Merchandising

"The lady was very pregnant and of course that made her dress higher in the front than in the back so she complained to me about it and I took a large pair of shears and trimmed a few inches off the back to even it up."

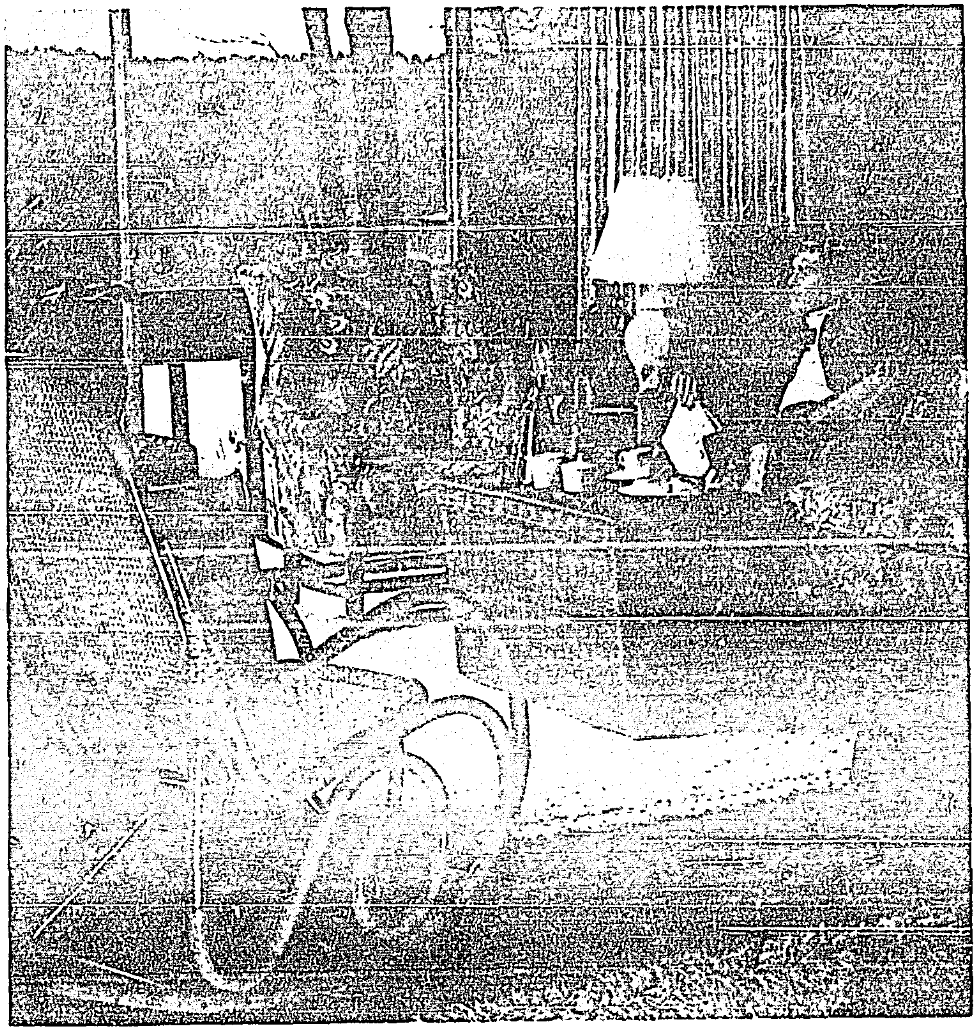
That was the late Mr. James Cash Penney describing the fashion dimension at Penney in 1902. At the same time, he was describing fashion in America, or at least that part of America he served in his store in Kemmerer, Wyoming.

The America we serve today is more demanding. As affluence, education, and cultural and taste levels have increased and expanded, so too has the awareness of fashion. To satisfy the needs, the wants, the life styles and, yes, the whims of Penney customers, we are more and more concerned with the fashion dimension in our merchandising.

To begin with, the word *fashion* needs redefining. Many people still think of fashion in terms of women's clothes. Others realize its importance in men's and children's apparel, and some understand how thoroughly it pervades our homes. But few realize how all-encompassing the fashion dimension in merchandising is today.

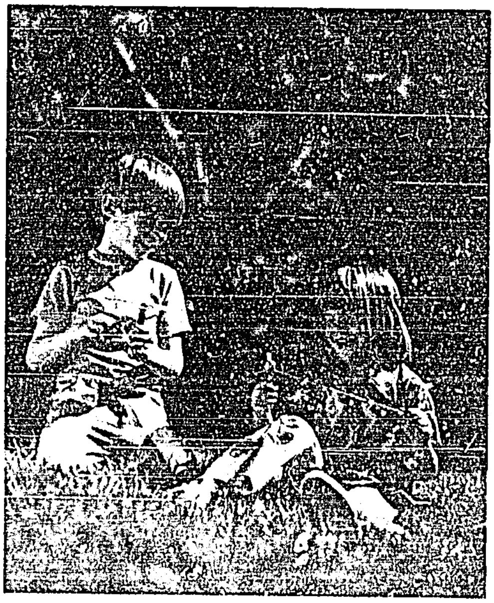
The fact is almost everything we sell has a fashion dimension—from red-striped passenger car tires to red, white, and blue baseball gloves. In this report, you will see wide-ranging examples of Penney merchandise which all have one thing in common—fashion.

The travel wardrobes, the luggage, the updated turban, the furniture, home furnishings, even the plants are all a part of the fashion dimension at JCPenney.



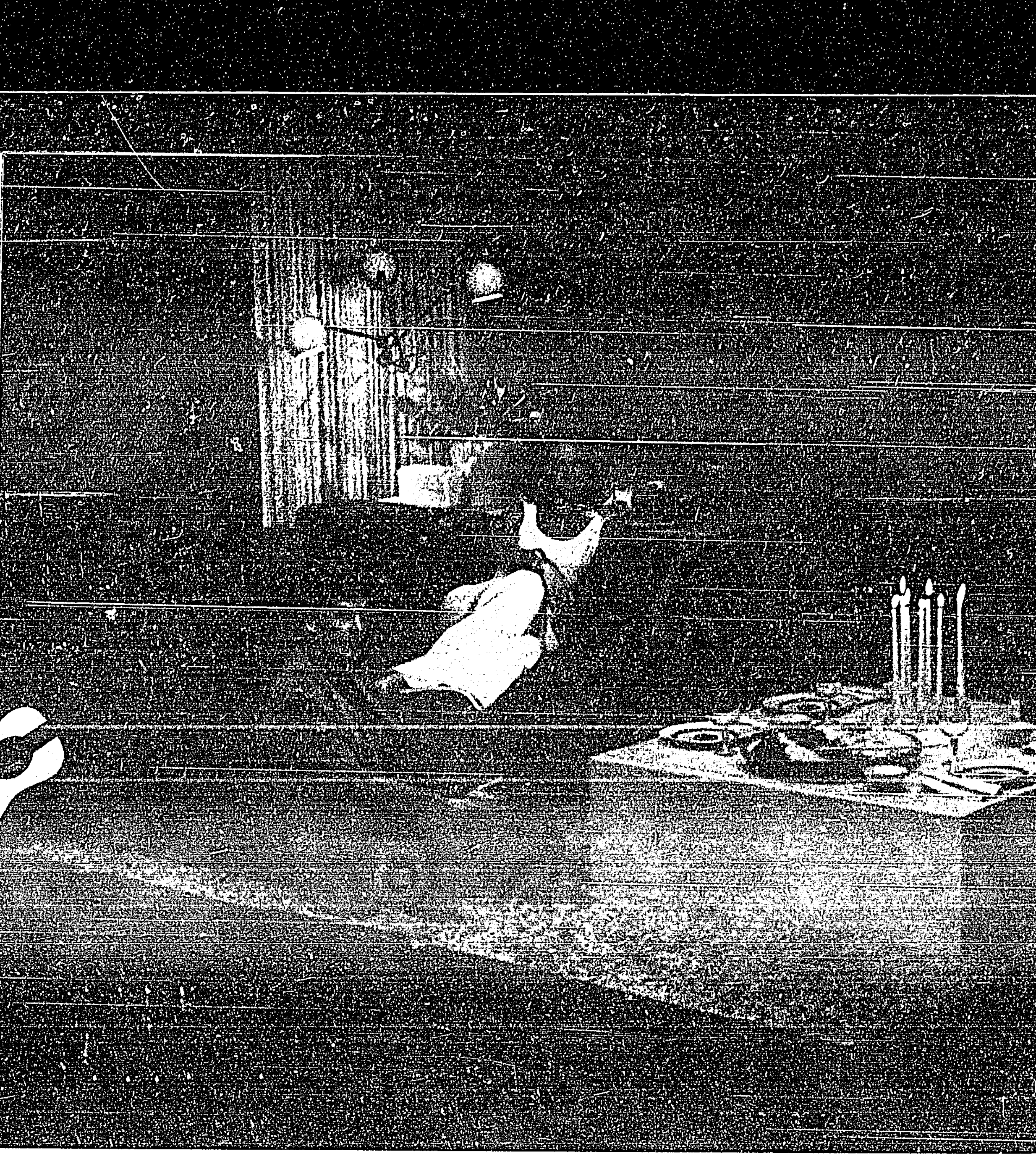
Who is the market for our fashion merchandise? Just about everyone in the tremendous middle 85 per cent of the United States population.

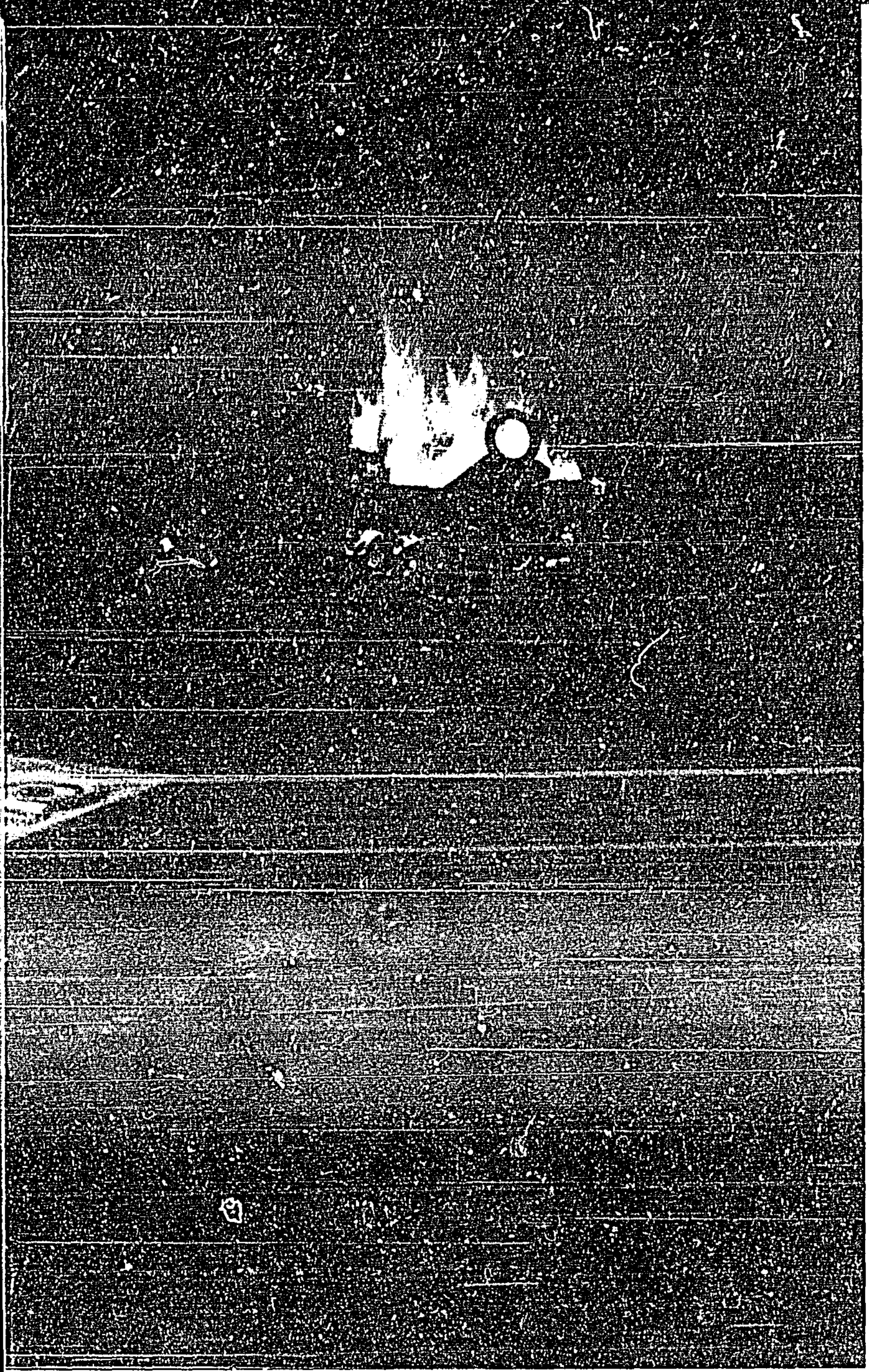
In children's apparel, an area where we have been traditionally strong, we added last year in stores and in the Catalog a "Jr Hi" Shop. This is designed to cater to a very important customer who is setting the shopping patterns she will follow through young adulthood and the years of family formation.

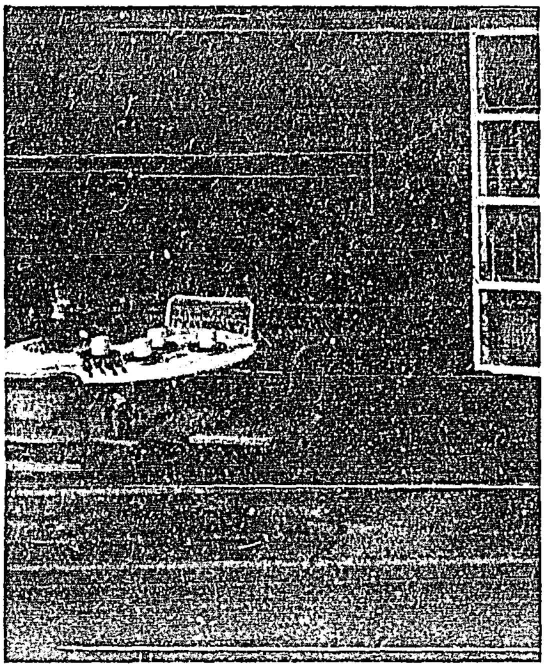


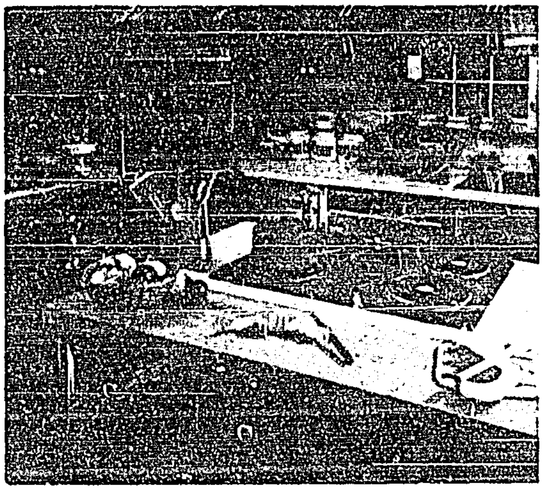
In our Inn Shops for men, high fashion looks are predominant: color-coordinated tops and bottoms, leather and suede coats, super head gear. Other departments for men and boys offer more traditional clothes.

Giving JCPenney hard lines a distinctive fashion look is a constant challenge to a product design team led by Robert G. Smith. Much creative effort, for example, goes into the development of home electronics merchandise, which has special appeal to youthful customers.







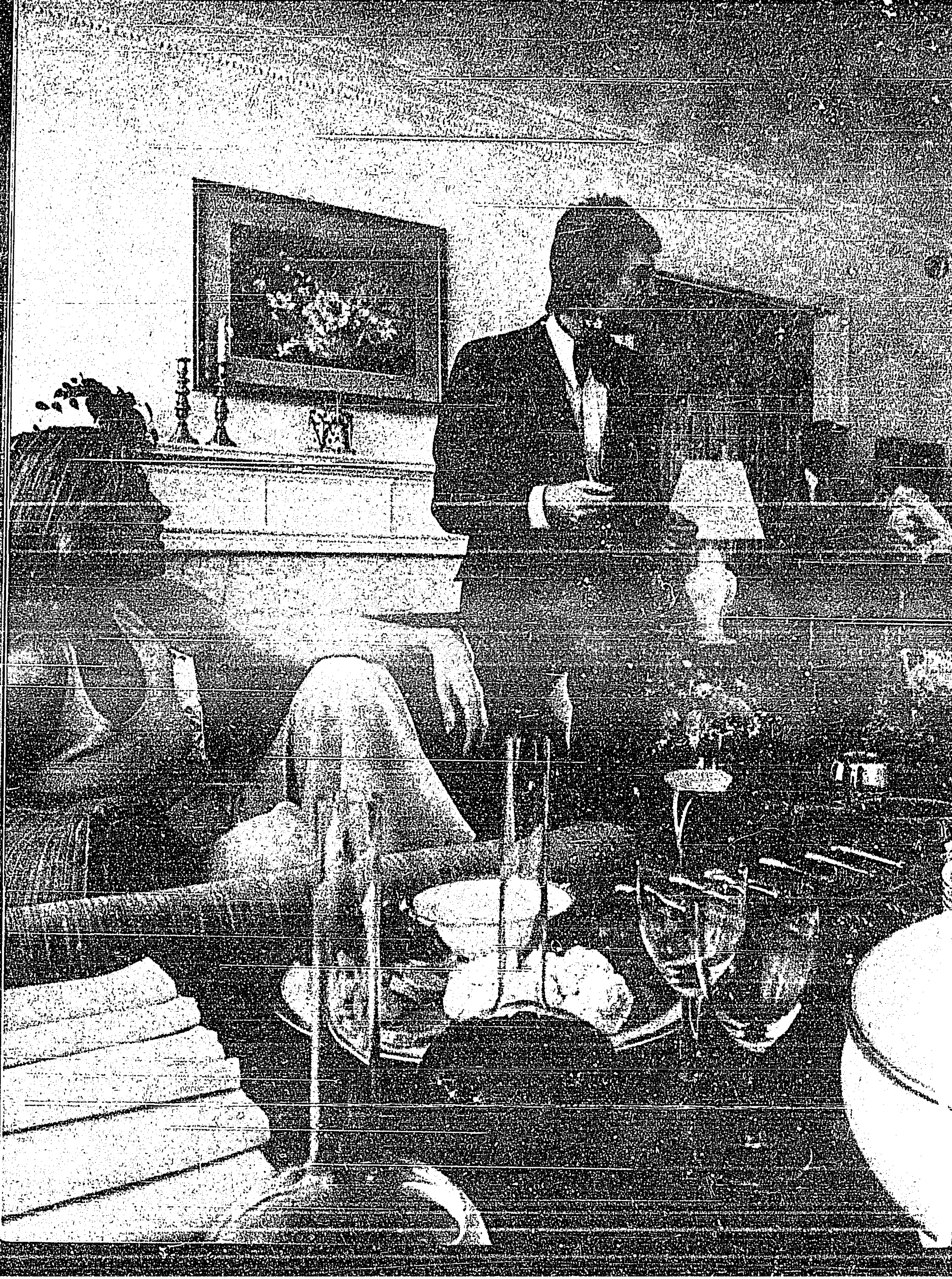


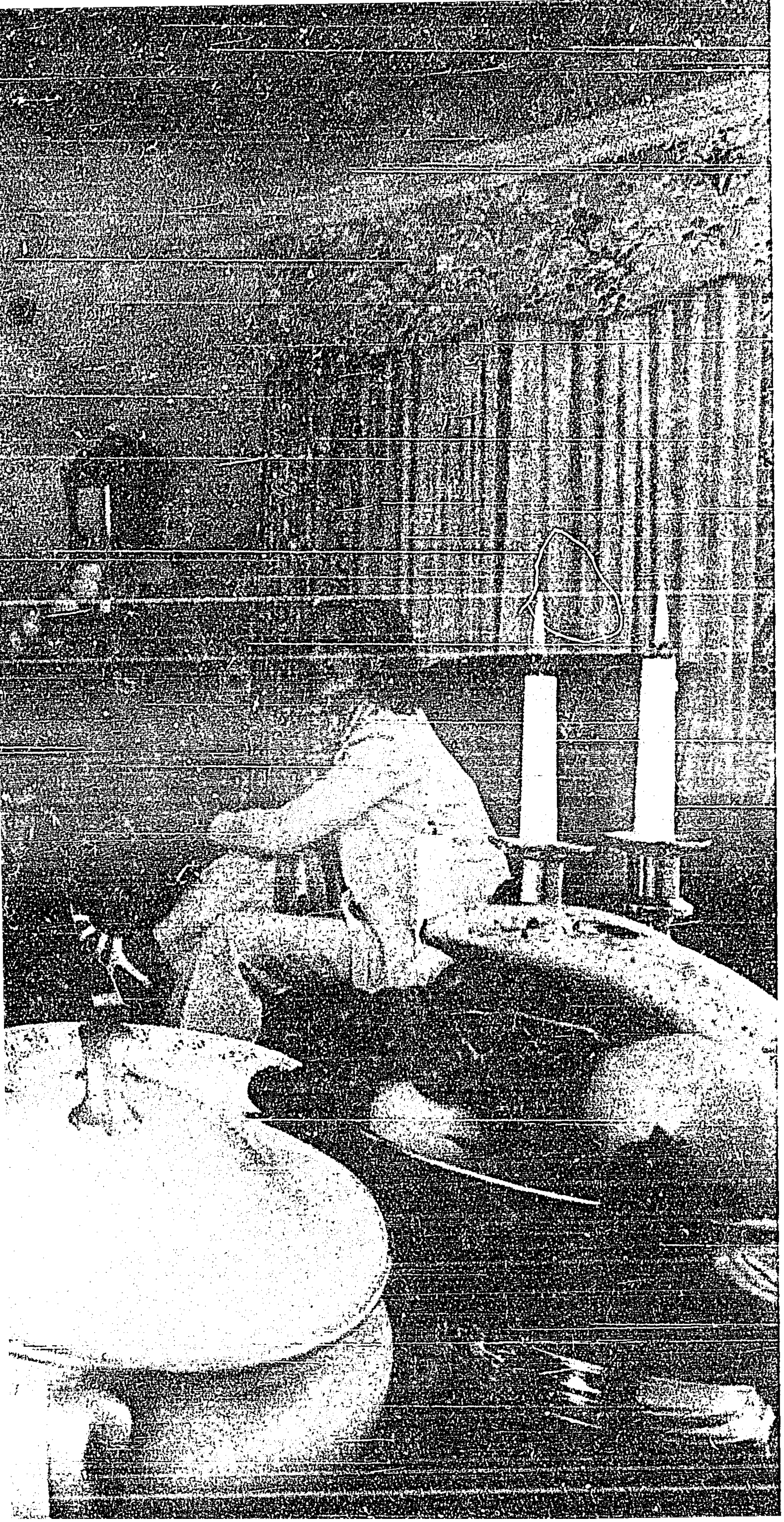
Fashion for the home is everywhere—from a kitchen stove to a Chinese wok. Any discussion of home fashions at JCPenney must begin by dispelling the mass market myth. Within the 85 per cent of the population that is our market, people are individuals, with individual needs and wants.

There has been a general upgrading of taste levels, quality levels, and price levels that has shown us we must continually raise our sights.

Today, two million families are part of the second home boom in this country, called "more significant than the second car boom of the fifties." The number is expected to increase by 10 per cent annually. And this doesn't count mobile homes or small cabins.

Furnishing a second home doesn't have to strain the budget, as Penney's decorating staff demonstrates in this lakeside retreat. Versatile Glad Pads which serve as both sofas and beds create a warm but sophisticated environment to suit contemporary tastes.





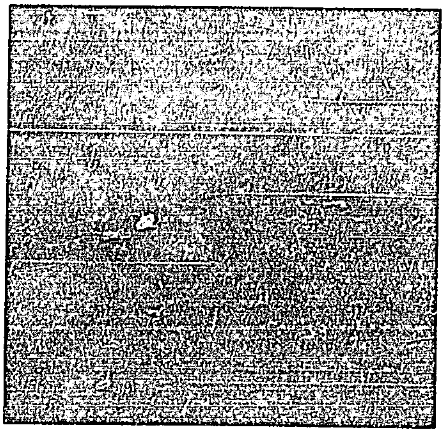
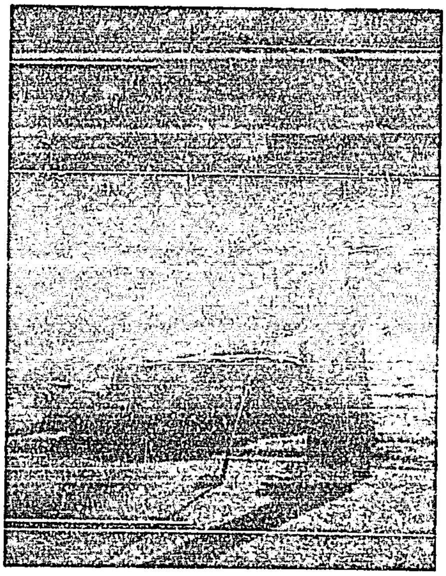
As fashion coordinator for the JCPenney catalog, Virginia Sorem is concerned with the books' overall fashion look. A former model herself, she oversees the models, accessories, and props right down to the final shootings. She views fashion as "a means of communication, reflecting the woman and her aspirations, nowhere more apparent than in the home."

Almost 300 Penney stores as well as the catalog now carry furniture. Special order books, with photographs and descriptions of merchandise, enable our stores to offer their customers a wider selection.

Custom decorating, once for upper income people almost exclusively, is today in demand by a broad range of customers. We now have 700 custom decorators working out of our stores, and we expect to double this number within the next three years.

This living room in an old country home was refurbished by JCPenney Custom Decorating. Light bright fabrics on furniture and windows set off the customer's antiques.

A new decade of growth for home furnishings is a virtual certainty. The increase in United States families projects a need for 26 million new or rehabilitated housing units by the late seventies.

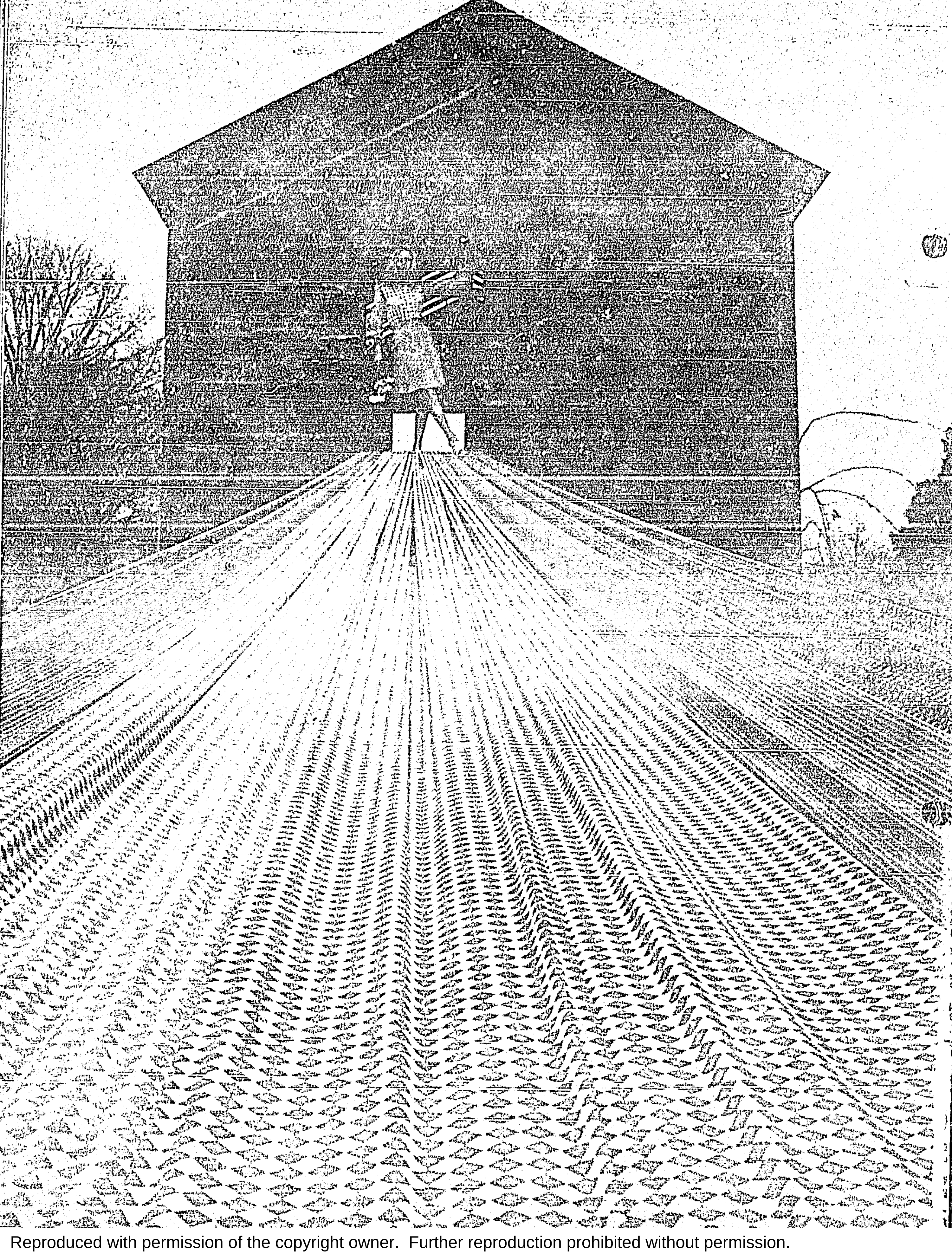




The sporting life has always given fashion a direction. This is especially the case today when easy comfortable sports clothes, at which American designers have excelled, are appropriate for almost any occasion.

Color came into men's wear by way of the golf course. Then TV exposure to champion golfers encouraged men to wear such clothes themselves.

Tennis, once seasonal, is now in season all year round. So is an entirely new styling category that takes off from this increasingly popular sport.

There are fashion looks in golf bags—the one shown is being advertised nationally—in camping gear, and of course in swimwear.



Home sewing has been perennially popular, and Penney traditionally has enjoyed a major share of the fabrics market. Today, our customers tend to be younger and look upon sewing not just as a way to save money but as creative self expression.

Crafts generally are in a great revival, and many people are attempting afghans and needlepoint with the aid of kits. Appliques can be fun and a "marabou" jacket can be purchased at JCPenney by the yard.

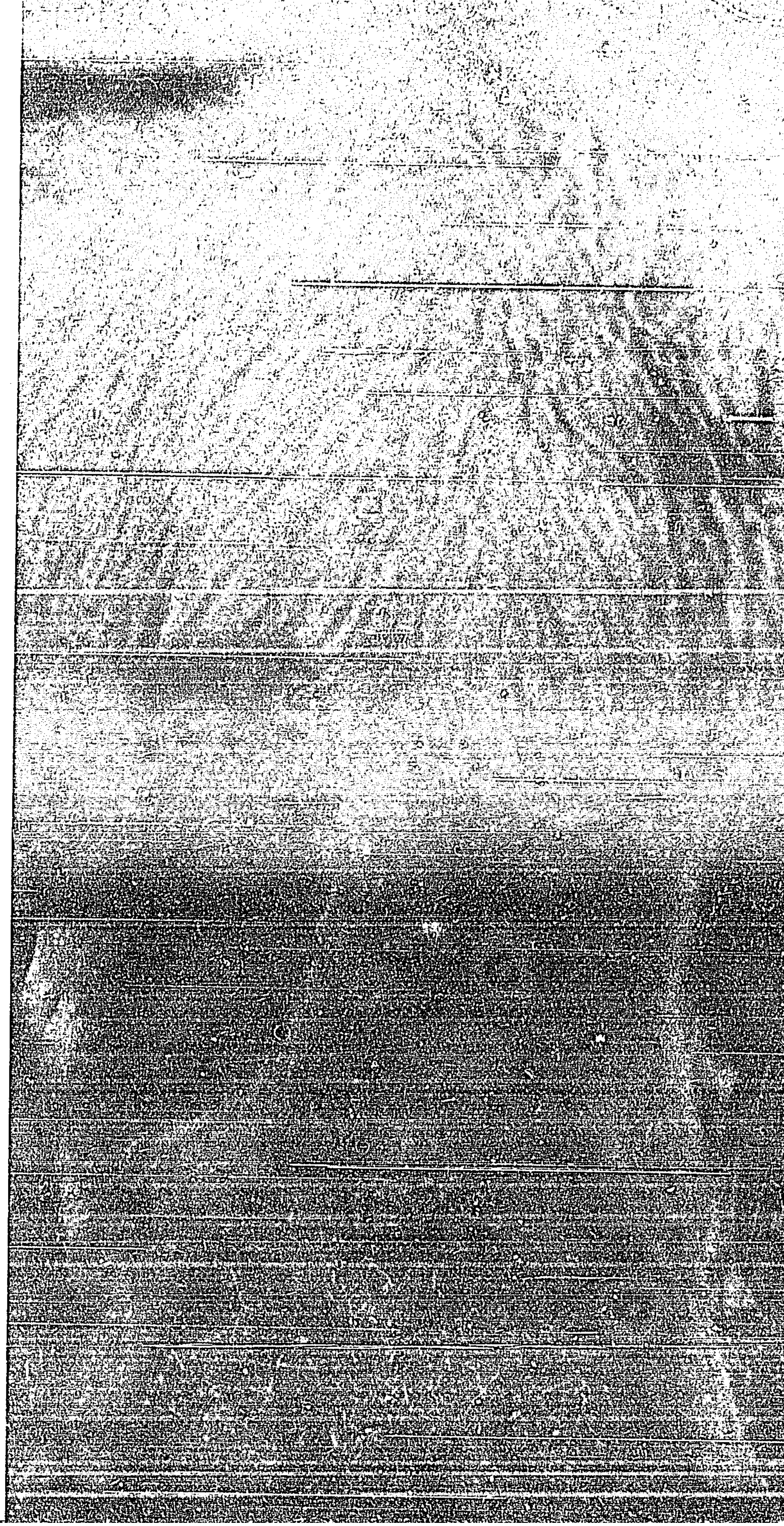
Fashion must be compatible with durability. A professional staff of almost 200 technically trained people help Penney buyers establish specifications that our suppliers must meet, whether the merchandise is a patchwork suede cycle jacket or an avocado freezer.

Fashion coordinator Lois Ziegler advises buyers, interprets trends, spots new ideas, and provides stores with fashion information, forecasts, merchandise news.

Penney fashion apparel people keep a constant watch on the fashion scene here and abroad. When a trend item is spotted, they're ready to move quickly and get merchandise to the stores.

Most fashion change, of course, follows a slow, observable transition, although it may seem sudden to the consumer. Generally, Penney introduces fashions tentatively, by testing small shipments in key stores to "see if the look checks out."

Fashion demands a flexibility in merchandising that is not automatically achieved by a company the size of Penney. We must always be geared to act as quickly as those who manage small specialty shops.



1972 Review of Operations and Financial Information

Sales in 1972 were $5.5 billion, an increase of 14.9 per cent over the $4.8 billion in 1971. Operating divisions contributed to sales as follows:

(In millions)	1972	1971	Per cent increase: All units	Per cent increase: Comparative units
Penney stores				
Full line	$2,566.8	$1,993.9	28.7	13.1
Soft line	2,084.9	2,079.0	.3	3.1
Total	4,651.7	4,072.9	14.2	7.9
The Treasury stores	284.5	242.3	17.4	1.7
Thrift Drug stores	132.5	112.2	18.0	10.8
Supermarkets	100.2	96.6	3.8	2.1
Mail order	89.0	76.9	15.9	—
European operations	271.7	211.3	28.6	4.4
Total sales	$5,529.6	$4,812.2	14.9	7.7

Catalog merchandise sold through Penney stores is included in the sales of Penney stores. Thrift Drug and food supermarket sales through Penney and Treasury stores are included in the sales of the latter divisions. Food sales by European operations are included in that division's sales. Licensed department sales represent less than 1 per cent of total Company sales, and are included in the sales of Penney and Treasury stores. Comparative units are those in operation throughout both 1972 and 1971. For further analyses of sales, see the discussion below of each division's operations and the Operations Summary on page 35.

In the eight years ended January 27, 1973, sales have grown at a compound annual rate of 12.5 per cent.

Net income was $162.6 million in 1972, an increase of 19.8 per cent from the $135.7 million earned in 1971.

Income before income taxes and other unconsolidated subsidiaries was $311.2 million in 1972, which is 17.2 per cent higher than the $265.6 million in 1971.

Net income per share increased in 1972 as shown in the following table, which also lists the unaudited amounts for each quarter:

	1972	1971	Increase
Primary			
First quarter	$ .35	$ .31	$ .04
Second quarter	.51	.46	.05
Third quarter	.78	.68	.10
Fourth quarter	1.22	1.01	.21
Year	$2.86	$2.46	$ .40
Fully diluted—year	$2.86	$2.43	$ .43

In the eight years ended January 27, 1973, primary net income per share has increased at a compound annual rate of 9.8 per cent.

Fully diluted net income per share in 1971 assumed conversion of the Company's 4¼ per cent convertible debentures during the period outstanding prior to their redemption date of August 12, 1971.

The quarterly dividend declared remained at 26 cents per share for the first three quarters and increased to 27 cents in the fourth quarter, for a 1972 total of $1.05 per share. Dividends declared amounted to $59.5 million in 1972, compared with $55.3 million in 1971.

The young men on wheels are wearing JCPenney Inn Shop merchandise—a classic look but updated with baggies (the pants) and stacked heels (the shoes). The girls are in the ubiquitous casual separates. After a long absence, hats have made their comeback, offshoots of the tennis look, selling now to the young customer.

Income tax expense increased in 1972 as follows:

(In millions)	1972	1971
Current		
Federal	$102.0	$109.0
State and local	13.1	10.8
	115.1	119.8
Deferred		
Federal	36.1	13.5
State and local	4.1	1.0
	40.2	14.5
Total income tax expense	$155.3	$134.3
Effective tax rate on income before income taxes and other unconsolidated subsidiaries	49.9%	50 6%

Investment credits increased to $5.7 million from $4.0 million in 1971.

Deferred taxes arise principally from deferred gross profit on the balance due from installment sales and the effects of accelerated depreciation.

Taxes other than income taxes totaled $92.3 million in 1972, up from $76.5 million in 1971.

Full line Penney stores were opened as follows:

	1972		1971	
	Number of units	Net selling space (000 sq. ft)	Number of units	Net selling space (000 sq. ft.)
New markets	15	1,640	14	1,730
Relocations	23	2,133	16	1,625
Expansions	—	20	—	—
Total	38	3,793	30	3,355

The full line stores opened in 1972 ranged in size from 32,000 to 175,000 square feet of net selling space, averaging 99,000 square feet A listing of store opening dates, locations, and sizes is shown on page 33.

Sales of full line stores comprise store merchandise and services and merchandise sold through in-store catalog sales centers as shown below:

(In millions)	1972	1971	Per cent increase
Store merchandise and services	$2,468.5	$1,927.1	28.1
Catalog sales centers	98.3	66.8	47.2
Total	$2,566.8	$1,993.9	28.7

Catalog sales centers were opened in 35 full line stores in 1972, raising the total number in full line stores to 236.

In 1972, full line stores' sales exceeded the sales of soft line stores for the first time. Full line stores in operation throughout 1972 produced sales per square foot of net selling space of $104, compared with $96 in 1971 for stores in operation throughout that year.

Operating profit increased from the 1971 level, principally as a result of the sales increase. Catalog sales centers contributed to full line stores' profit growth in 1972.

Soft line stores declined in number as shown below:

	1972		1971	
	Number of units	Net selling space (000 sq. ft)	Number of units	Net selling space (000 sq. ft)
Closed				
Relocations	25	409	18	309
Other	11	186	20	464
Opened				
Relocations	(1)	(12)	(1)	(35)
Expansions	—	(18)	—	(42)
Net decline	35	565	37	696

Sales of soft line stores comprise store merchandise and services and merchandise sold through in-store catalog sales centers as shown below:

(In millions)	1972	1971	Per cent increase (decrease)
Store merchandise and services	$1,884.2	$1,919.6	(1.8)
Catalog sales centers	200.7	159 4	25.8
Total	$2,084.9	$2,079.0	.3

Catalog sales centers were opened in 33 soft line stores, and 16 stores with catalog sales centers were closed, increasing the total number in soft line stores to 895, compared with 878 in 1971.

Soft line stores in operation throughout 1972 produced sales per square foot of net selling space of $121, compared with $118 in 1971 for stores in operation throughout that year

Soft line stores' operating profit and profit margin in 1972 were about the same as in the prior year Operating profit was aided by profit growth in catalog sales centers Soft line stores continued to maintain higher profit margins on the average than full line stores.

Four The Treasury stores were opened in 1972, averaging 117,000 square feet of net selling space Included in each store's selling area is a food supermarket of approximately 20,000 square feet of net selling space, a pharmacy, and an automotive center. A listing of store opening dates, locations, and sizes is shown on page 33.

Food supermarkets accounted for approximately 36 per cent of total Treasury sales in 1972; the balance was divided about equally between soft goods and hard goods

Stores in operation throughout 1972 produced sales per square foot of net selling space of $117, compared with $122 in 1971 for stores in operation throughout that year.

The Treasury operations recorded a small loss in 1972, but showed improvement over the prior year.

The Company opened 14 Thrift Drug stores in 1972, with net selling space of 111,000 square feet; three stores, with net selling space of 11,000 square feet, were closed.

Thrift Drug operated drug and health and beauty aid departments in 23 The Treasury and 10 Penney full line stores; the results of these operations are included in the results of those divisions.

Approximately 25 per cent of Thrift Drug's sales volume in 1972 consisted of prescription drugs.

Stores in operation throughout 1972 produced sales per square foot of net selling space of $110, compared with $111 in 1971 for stores in operation throughout that year.

Thrift Drug's profit was about the same as in 1971. Profit margins declined from the 1971 level.

Two supermarkets were opened in 1972, with net selling space of 45,000 square feet. One unit, with net selling space of 13,000 square feet, was closed. Supermarkets operations consist of 23 units, located primarily in department and discount stores operated by other retailers. Individual units range in size from 15,000 to 28,000 square feet of net selling space

The results of food supermarket operations in The Treasury, Penney full line, and European stores are included in the results of those divisions.

Supermarkets in operation throughout 1972 produced sales per square foot of net selling space of $337, compared with $321 in 1971 for stores in operation throughout that year Profit in 1972 declined slightly from the prior year

Mail order consists of catalog operations serving customers who order merchandise directly by mail Profit margins improved in 1972.

Total catalog volume, consisting of sales by mail order and through catalog sales centers in stores, was $388.0 million in 1972, up from $303.1 million in 1971.

Six European stores were opened in 1972, four in Belgium and two in Italy, with total net selling space of 496,000 square feet Opening dates, locations, and sizes of the stores are shown on page 33.

In Belgium, the number of stores at year end was 88, with total net selling space of 1.5 million square feet. Three stores were closed in 1972. In addition, 225 franchised stores were in operation at year end Food markets accounted for approximately 36 per cent of sales in Belgium

In Italy, four stores were operating at year end, with total net selling space of 188,000 square feet.

The following table shows a breakdown of European sales, which exclude value added taxes:

(In millions)	1972	1971	Per cent increase
Belgium	$262.5	$208.5	25.9
Italy	9.2	2.8	229.1
Total	$271.7	$211.3	28.6

European stores in operation throughout 1972 produced sales per square foot of net selling space of $124, compared with $118 in 1971 for stores in operation throughout that year.

In 1972, European operations recorded a loss about equal to that of the prior year. Although some improvements in operating results were achieved, these were offset by heavy start-up costs associated with the 1972 expansion program, which increased net selling space approximately 38 per cent.

Net assets of the European operations were $48.3 million at year end.

Investment in unconsolidated subsidiaries was $221.3 million at year end 1972, compared with $185.0 million at year end 1971. The following tabulation shows a breakdown of the investment, stated at Penney's equity in net assets:

(In millions)	January 27 1973	January 29 1972
J. C. Penney Financial Corporation	$177.2	$145.8
Other unconsolidated subsidiaries, principally consumer financial services companies	44.1	39.2
Total	$221.3	$185.0

Other unconsolidated subsidiaries' contribution to net income was $6.7 million, compared with $4.4 million in 1971, an increase of 52.0 per cent.

Consumer financial services companies are principally Great American Reserve Insurance Company, J C. Penney Insurance Company, and J. C. Penney Life Insurance Company.

The insurance companies offer life, accident, and health insurance plans to Penney customers as well as to the general public. At the end of 1972, life insurance in force totaled $1.8 billion There were approximately 453,000 life, accident, and health insurance policyholders, excluding those covered under group plans.

Combined condensed financial statements of the three insurance companies, in accordance with generally accepted accounting principles, are as follows:

Condensed income statement

(In millions)	1972	1971
Premiums written		
Life	$21.1	$18.8
Accident and health	27.2	23.8
Total	$48.3	$42.6
Underwriting income	$ 3.1	$ .7
Investment income	5 5	4.6
Income before income taxes	8.6	5.3
Income taxes	2.3	1.4
Net income	$ 6.3	$ 3.9

Condensed balance sheet

(In millions)	December 31 1972	December 31 1971
Assets		
Bonds, at amortized cost	$ 51.9	$ 41.9
Stocks, at cost	8.4	5.1
Loans	32.8	32.5
Real estate, net	6.3	5.3
Other assets	24.7	25.2
	$124.1	$110.0
Liabilities		
Policy and claims reserves	$ 75.0	$ 69.3
Income taxes	7.5	6.3
Other liabilities	2.9	2.0
Equity of J. C. Penney Company, Inc	38.7	32.4
	$124.1	$110.0

In February 1973, a proposal for the merger into the Company of The Educator & Executive Company of Columbus, Ohio, was approved by the respective boards of directors on the basis of .385 share of Penney common stock for each share of common stock of Educator & Executive. The Educator &

Executive Company, which is engaged in marketing automobile and homeowners insurance by direct response methods, has 2,250,000 shares outstanding. Consummation of the transaction will be subject, among other things, to the approval of a definitive agreement by the boards of directors of both corporations and by the stockholders of The Educator & Executive Company.

During the year, the Company sold its wholly-owned subsidiary, Citizens National Bank of Dallas, to comply with the Bank Holding Company Act Amendments of 1970.

Credit sales in 1972 rose to a record $2.0 billion, up 20.3 per cent from $1.6 billion in 1971. The proportion of credit sales to total sales increased to 38.7 per cent in 1972 from 36.8 per cent in 1971. In computing these percentages, the sales of supermarkets and European operations were excluded because they do not offer consumer credit.

Approximately 90 per cent of total credit sales in 1972 was on the regular charge account plan; the balance was principally on the time payment account plan. At year end, the number of accounts with balances was 7.9 million regular accounts and .7 million time payment accounts. The average account balance at year end increased in 1972 as follows:

	1972	1971
Average balance per account		
Regular	$122	$104
Time payment	221	215
All	131	113

Monthly payments under both plans are based on the account balance, with a minimum monthly payment of not less than $10 for regular accounts and $5 for time payment accounts. Monthly finance charges do not exceed 1½ per cent of account balances, subject to minimum charges in certain circumstances.

During 1972, monthly collections averaged 20.4 per cent of customer receivables for regular accounts and 10.1 per cent for time payment accounts.

Account balances in which any portion was three months or more past due represented 3.3 per cent of the amount of customer receivables at year end 1972.

The Company's policy is to write off accounts when a scheduled payment has not been received within six months of the due date, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write-off, and recoveries are applied as a reduction of bad debt losses.

Key statistics regarding bad debts are shown below:

(In millions)	1972	1971
Balances written off	$27.6	$26.4
Less recoveries	7.7	7.4
Net bad debt losses	$19.9	$19.0
Net bad debt losses as a per cent of total credit sales for year	1.0%	1.2%

This merchandise is featured in Penney's midsummer catalog. Our model wears open shirt-jacket over tank top with wide-legged pants. Platform shoes complete the look.

The cost of the retail credit operation continued to exceed service charges on customer receivables as follows:

(In millions)	1972	1971
Service charge income	$123.9	$103.5
Costs		
Administration	77.3	68.5
Interest	39.0	33.2
Provision for doubtful accounts	24.3	20.8
Income taxes	(8.3)	(9.6)
	132.3	112.9
Net cost of credit	$ 8.4	$ 9.4
Net cost as per cent of credit sales	0.4%	0.6%

Administration includes the costs of operating credit regional offices and that portion of in-store costs related directly to credit activities.

Interest is computed at the average rate for borrowings of J. C. Penney Financial Corporation applied to the average total customer accounts receivable after subtracting deferred income taxes resulting from installment sales.

The provision for doubtful accounts consists of net bad debt losses plus the accrual required to maintain the allowance for doubtful accounts at 2 per cent of customer receivables.

Income taxes are based on the Company's effective income tax rate.

Class actions have been instituted in a number of states against retailers, in some cases including the Company, seeking substantial recoveries and a reduction of monthly service charges applicable to revolving charge accounts. The ultimate consequences of all the pending actions are not presently determinable but will not in the opinion of the Company's management have a material adverse effect on its financial position or net income.

Receivables increased in 1972 as follows:

(In millions)	January 27 1973	January 29 1972
Customer receivables		
Regular charge account plan	$ 963.7	$762.2
Time payment account plan	170.0	127.5
	1,133.7	889.7
Less		
Receivables sold to J. C. Penney Financial Corporation, less 5 per cent withheld pending collection	1,043.3	824.9
Allowance for doubtful accounts	22.7	18.3
	1,066.0	843.2
Customer receivables, net	67.7	46.5
Other receivables	79.3	63.7
Receivables, net	$ 147.0	$110.2

Receivables, net includes an amount due from Financial (5 per cent withheld pending collection) of $54.9 million in 1972, compared with $43.4 million in 1971.

Customer receivables due after one year were approximately $113 million at year end 1972, compared with $89 million at year end 1971.

Almost all of Penney's customer receivables are sold to its wholly-owned subsidiary, J. C. Penney Financial Corporation, without recourse.

J. C. Penney Financial Corporation purchased $2.0 billion of customer receivables from Penney in 1972, up from $1.7 billion in 1971. Financial withholds, as a reserve, an amount equal to 5 per cent of the receivables so acquired. In addition, it charges a discount which is calculated to produce earnings that cover fixed charges, chiefly interest on borrowings, at least one and one-half times.

To finance its purchases of receivables, this subsidiary sells its short term notes (commercial paper) at prime market rates directly to investors, utilizes short term bank borrowings, and, from time to time, issues long term debt. Average short term debt outstanding in 1972, net of short term investments, was $665.0 million, compared with $607.4 million in 1971. The average rate of interest paid on total debt, net of investment income, was 5 0 per cent in 1972, compared with 5.1 per cent in 1971.

During 1972, Penney made a capital contribution of $20 million to Financial.

Following is the comparative condensed balance sheet of J. C. Penney Financial Corporation:

(In millions)	January 27 1973	January 29 1972
Assets		
Customer receivables purchased from J C. Penney Company, Inc., less 5 per cent withheld pending collection	$1,043.3	$824.9
Cash and short term investments	1.2	19.3
Other assets	3 2	2.9
	$1,047.7	$847.1
Liabilities		
Notes payable	$ 687 6	$519.5
Accrued liabilities	7.9	6.8
Long term debt	175 0	175.0
Equity of J. C Penney Company, Inc	177 2	145 8
	$1,047.7	$847.1

Financial's obligations are not guaranteed by Penney. At year end 1972, there were confirmed lines of credit with 505 banks totaling $712.7 million available to either Penney or Financial, none of which was in use.

The complete financial statements of J. C. Penney Financial Corporation are contained in its 1972 annual report, which is available upon request.

Interest expense was $59.8 million in 1972, compared with $53.5 million in 1971. The following table details the principal components of interest expense:

(In millions)	1972	1971
Discount on customer receivables sold to J. C. Penney Financial Corporation	$57.4	$48.7
Interest on advances from J. C. Penney Financial Corporation	6.7	8.6
Interest on long term debt	16.1	18.8
Other interest, net	5.0	3.4
	85.2	79.5
Less		
Income of J. C. Penney Financial Corporation before income taxes	21.9	19.8
Capitalized interest on construction in progress and land held for future use	3.5	6.2
	25.4	26.0
Total interest expense	$59.8	$53.5

Merchandise inventories rose to $1,047.1 million at year end, an increase of 19.1 per cent over the $879.4 million at year end 1971. The increase in inventories was due to higher volume and merchandise in new stores.

Working funds increased $178.0 million during 1972, compared with an increase of $62.7 million in 1971. Working funds consist of current assets less current liabilities, excluding deferred credits, principally tax effects applicable to installment sales. Following is an analysis of changes in working capital and working funds:

(In millions)	1972	1971
Cash	$ (10.3)	$(10.4)
Receivables, net	36.8	26.8
Merchandise inventories	167.7	89.9
Properties to be sold under sale and leaseback agreements	8.4	30.9
Prepaid expenses	3.8	2.9
Accounts payable and accrued liabilities	(56.8)	(93.6)
Dividend payable	(.7)	(1.3)
Due to unconsolidated subsidiaries	1.0	31.3
Income taxes and deferred credits	(8 7)	(21.0)
Increase in working capital	141.2	55.5
Deferred credits, principally tax effects applicable to installment sales	36.8	7.2
Increase in working funds	$178.0	$ 62.7

Properties at year end were as follows:

(In millions)	January 27 1973	January 29 1972
Land	$ 35 8	$ 34.0
Buildings	163.9	152.2
Fixtures and equipment	548.1	497.4
Leasehold improvements	87.5	64.3
Construction in progress and land held for future use	60.4	134.5
	895 7	882.4
Less accumulated depreciation and amortization	291.7	268.1
Properties, net	$604.0	$614.3

In 1972, Penney sold 25 store properties for $120.1 million and leased them back. These transactions had no effect on net income

Capital expenditures in 1972 totaled $185.5 million, compared with $237.2 million in 1971. Included in this amount were expenditures of $14.0 million to modernize and renovate older stores. The following tabulation compares 1972 and 1971 capital expenditures:

(In millions)	1972	1971
Land	$ 11.8	$ 18 8
Buildings	47.1	111.4
Fixtures and equipment	80.9	74.4
Leasehold improvements	18.6	15.0
Construction in progress and land held for future use	27.1	17.6
Total capital expenditures	$185.5	$237.2

Capital expenditures by landlords were approximately $85.0 million in 1972, compared with $52.0 million in 1971.

Rent expense on real and personal property, including rent based on sales, increased to $170.8 million in 1972 from $149.3 million in 1971. Rent expense for 1971 has been restated to include personal property rent expense. Related minimum annual rentals at January 27, 1973, amounted to $109.4 million.

The Company conducts most of its operations from leased properties. Almost all leases will expire during the next 30 years; in the normal course of business, however, leases are renewed or replaced by leases on other properties.

Penney's commitments under long term leases were approximately $713 million at year end 1972. Long term leases are those which have a noncancellable original term of more than three years. These commitments are stated at the present value of all future minimum payments under such leases, after excluding property taxes, maintenance, insurance, and other amounts which do not constitute payments for property rights.

Advertising expense for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $113 6 million in 1972, up from $102 5 million in 1971 The increase in 1972 was due in part to a major expansion of national advertising, including the use, for the first time, of national television.

Penney's long term debt increased in 1972 as shown below:

(In millions)	January 27 1973	January 29 1972
J. C. Penney Company, Inc.		
8⅞ per cent sinking fund debentures due 1995	$150.0	$150 0
Other	3 0	3.1
J C Penney Europe, Inc.		
5 per cent subordinated guaranteed debentures due 1989, convertible at $59 40	—	12 8
6 per cent subordinated guaranteed debentures due 1989, convertible at $54.50	12 4	14.7
7 per cent Swiss franc loan due 1974	—	9.8
Other	1.1	1.1
J. C Penney International Finance Corporation		
4½ per cent subordinated guaranteed debentures due 1987, convertible at $86 after August 1, 1973	35.0	—
Sarma, S A.		
5¾ to 9 65 per cent Belgian franc loans due 1973 to 1996	15.4	18.6
Total	$216.9	$210.1

The 5 per cent convertible debentures of J. C. Penney Europe, Inc., were called for redemption and fully converted during 1972.

The 8⅞ per cent sinking fund debentures are not redeemable prior to July 15, 1980, by debt refunding at an annual interest cost lower than 8.93 per cent. An annual sinking fund of $9.3 million starts in 1980. The indenture contains provisions that restrict payments of cash dividends and the purchase of capital stock for cash. As of January 27, 1973, approximately $472 million of reinvested earnings was free of such restrictions.

To provide for conversion of debentures, 635,307 shares of Penney common stock were reserved at January 27, 1973.

Stockholders' equity rose to $1,138.0 million at year end 1972 from $989.6 million at year end 1971.

The return on stockholders' equity declined to 16.4 per cent in 1972 from 18.0 per cent in 1971.

The following table shows the changes that occurred in outstanding common stock:

	Shares		Amount (millions)	
	1972	1971	1972	1971
Balance at beginning of year	56,386,806	53,265,197	$228.5	$ 72.6
Issued in connection with conversion of:				
4¼ per cent convertible subordinated debentures due 1993	—	2,497,780	—	122.2
Penney Europe convertible subordinated guaranteed debentures due 1989				
6 per cent	40,463	189,875	2.2	10.1
5 per cent	215,479	—	12.7	—
Stock options exercised	134,371	144,250	4.4	4.4
Issued to retirement plan	185,752	204,927	16.2	14.1
Issued under stock bonus plan	124,527	84,777	9.5	5.1
Other	3,695	—	.3	—
Balance at year end	57,091,093	56,386,806	$273.8	$228.5

The number of stockholders increased to 71,000 at 1972 year end from 68,000 at 1971 year end. At 1972 year end, there were also 66,000 employees owning beneficially 3.6 million shares of Penney common stock through the retirement plans.

Retirement plans. Retirement expense was as follows:

(In millions)	1972	1971
Pension	$17.7	$ 6.4
Savings and profit-sharing	13.5	16.2
Total	$31.2	$22.6

Effective January 1, 1972, a revised pension plan and a separate savings and profit-sharing plan were adopted for domestic operations. If these new plans had been in effect throughout 1971, retirement expense would have been $28.4 million in that year.

Substantially all full-time employees in the United States who have completed 30 months of continuous service are participating in the new pension plan, which is noncontributory. In connection with the change to a noncontributory plan, prior participant contributions with accumulated interest are being refunded or transferred to the savings and profit-sharing plan. Current pension costs are funded annually as incurred, and all vested benefits are fully funded. The unfunded past service liability at year end was $29.6 million. Effective with 1973, the estimated annual rate of future income from pension plan assets has been increased from the 4 per cent previously in effect to 5 per cent. If the 5 per cent rate had been in effect in 1972, pension expense would have been approximately $15.8 million in that year.

The savings and profit-sharing plan encourages savings by allocating 4½ per cent of the Company's pre-tax profit to participants who save under the plan. Company contributions to the plan were made in previously unissued shares of Penney common stock.

Condensed financial statements of the combined retirement plans are as follows:

Condensed statement of changes in retirement fund assets

(In millions)	1972	1971
Total assets at January 1	$481.7	$391.4
Company contributions	33.2	23.5
Participants' contributions	31.9	22.0
Contributed assets of acquired plans	1.7	—
Dividends, interest, and other income	12.0	12.2
Market appreciation of investments	68.3	64.7
Participants' contributions refunded	(3.6)	—
Benefits paid	(45.2)	(32.1)
Total assets at December 31	$580.0	$481.7

Condensed balance sheet

(In millions)	1972	1971
Assets		
Penney common stock at market value: 3,618,161 shares in 1972; 3,365,915 shares in 1971	$327.0	$245.7
Funds with insurance companies	128.2	136.9
Other investments at market value	90.6	77.8
Other assets, net	34.2	21.3
	$580.0	$481.7
Liabilities		
Refunds due to participants	32.1	37.4
Reserved for pensions:		
Liability to pensioners	4.4	2.9
Reserve for pensions to participants not yet retired	62.8	34.2
Participants' equity in savings and profit-sharing plan	480.7	407.2
	$580.0	$481.7

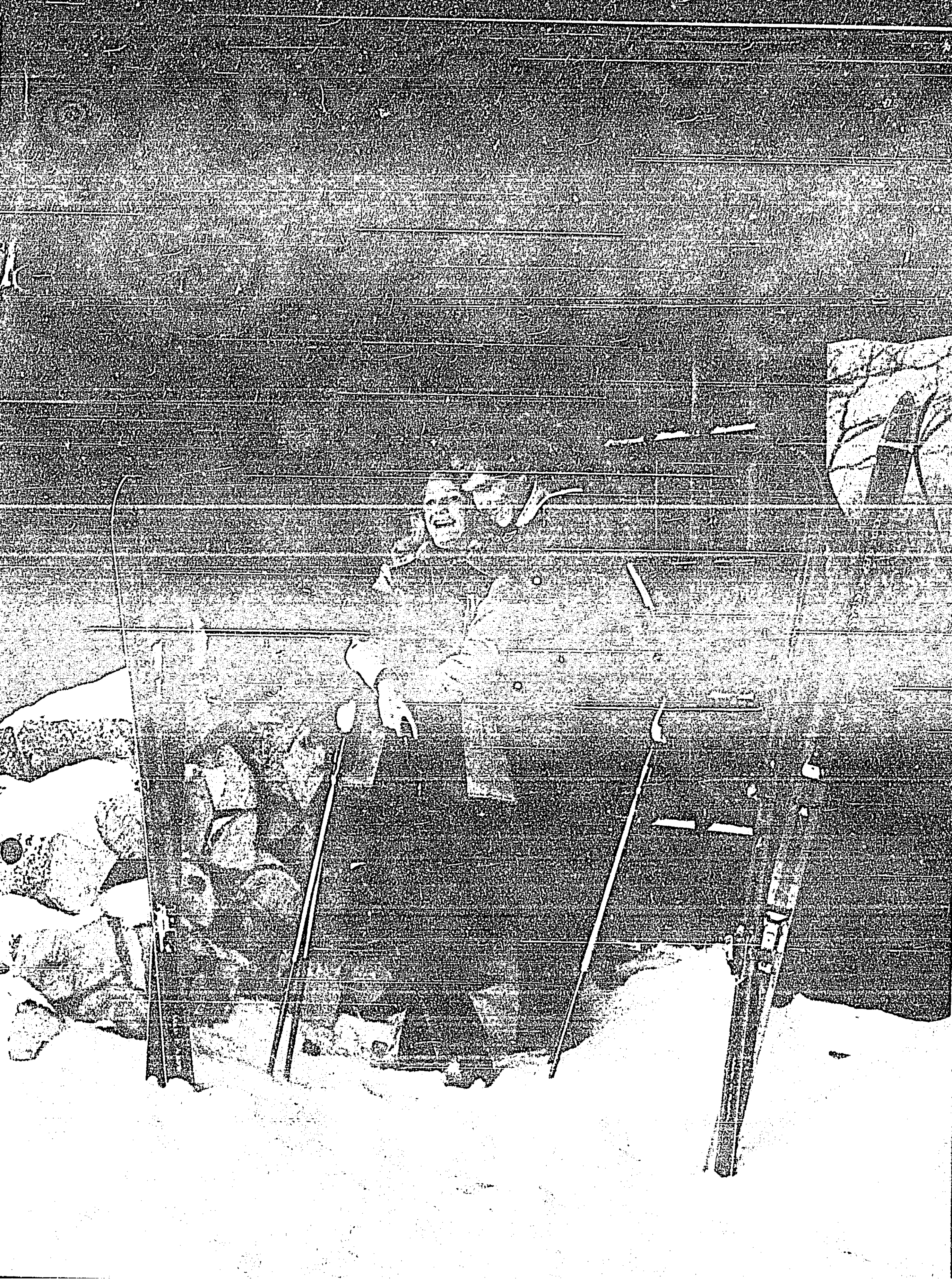
Stock bonus plan. Under the Company's stock bonus plan, 133,912 shares of common stock were earned in 1972, compared with 90,005 in 1971. At year end, 76,083 shares were reserved for issuance under the plan.

Stock options. At January 27, 1973, there were 116,225 shares of Penney common stock reserved for qualified stock option plans as follows:

	1972		1971	
	Shares	Option price range	Shares	Option price range
Balance at beginning of year	251,757	$22.59-53.25	399,857	$22.59-53.25
Exercised	(134,371)	22.59-53.25	(143,690)	23.33-53.25
Expired	(1,161)	24.02-53.25	(4,410)	24.02-53.25
Balance at year end	116,225	$22.59-53.25	251,757	$22.59-53.25

Options for 91,154 shares were exercisable at the end of 1972. The stock option plans have expired, and no further grants can be made thereunder.

The ski slopes are in fashion—so we're in the ski business. Described as the basic look with a fashion flair, the outerwear is equally popular with non-skiers who want to look like they "just came off the slopes."



Statement of Income
Statement of Reinvested Earnings

J. C. Penney Company, Inc.
and Consolidated Subsidiaries

Statement of Income	52 weeks ended January 27, 1973	52 weeks ended January 29, 1972
Sales	$5,529,621,697	$4,812,238,548
Costs and expenses		
Cost of goods sold, occupancy, buying, and warehousing costs	3,947,282,521	3,432,060,221
Selling, general, and administrative expenses	1,211,380,650	1,061,140,073
Interest, after deduction of income of J. C. Penney Financial Corporation before income taxes	59,763,739	53,467,845
Total costs and expenses	5,218,426,910	4,546,668,139
Income before income taxes and other unconsolidated subsidiaries	311,194,787	265,570,409
Income taxes	155,320,000	134,300,000
Net income before other unconsolidated subsidiaries	155,874,787	131,270,409
Net income of other unconsolidated subsidiaries	6,758,007	4,445,349
Net income	$ 162,632,794	$ 135,715,758
Per share of common stock		
Primary	$2.86	$2.46
Fully diluted	2.86	2.43

Statement of Reinvested Earnings		
Reinvested earnings—beginning of year	$ 761,100,305	$ 680,698,275
Net income for the year	162,632,794	135,715,758
Dividends	(59,456,022)	(55,313,728)
Reinvested earnings—end of year	$ 864,277,077	$ 761,100,305

See 1972 Review of Operations and Financial Information on pages 19 to 26, and 31.

Balance Sheet

Assets	January 27, 1973	January 29, 1972
Current assets		
Cash	$ 45,016,423	$ 55,302,033
Receivables, net	146,956,183	110,201,186
Merchandise inventories	1,047,064,287	879,381,432
Properties to be sold under sale and leaseback agreements	39,318,060	30,903,716
Prepaid expenses	38,925,098	35,100,024
Total current assets	1,317,280,051	1,110,888,391
Investment in unconsolidated subsidiaries	221,298,447	184,951,730
Properties, net	603,983,174	614,295,248
Other assets	11,118,073	13,734,759
	$2,153,679,745	$1,923,870,128

Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 547,144,900	$ 490,367,101
Dividend payable	15,343,706	14,602,202
Due to unconsolidated subsidiaries	—	980,000
Income taxes	22,107,225	50,244,679
Deferred credits, principally tax effects applicable to installment sales	175,000,000	138,200,000
Total current liabilities	759,595,831	694,393,982
Long term debt	216,856,393	210,146,889
Deferred credits, principally tax effects applicable to depreciation	39,200,000	29,700,000
Stockholders' equity		
Preferred stock without par value: Authorized, 5,000,000 shares—issued, none		
Common stock, par value 50¢: Authorized, 75,000,000 shares—issued, 57,091,093	273,750,444	228,528,952
Reinvested earnings	864,277,077	761,100,305
Total stockholders' equity	1,138,027,521	989,629,257
	$2,153,679,745	$1,923,870,128

See 1972 Review of Operations and Financial Information on pages 19 to 26, and 31.

Statement of Changes in Financial Position

(In millions)	52 weeks ended January 27, 1973	52 weeks ended January 29, 1972
Funds were generated from:		
Operations		
Net income	$162 6	$135 7
Undistributed net income of unconsolidated subsidiaries	(18 1)	(14.8)
Depreciation	52.5	45.5
Deferred credits, principally tax effects applicable to depreciation	9.5	7.3
Stock issued to retirement plans	16.2	14.1
Stock issued under stock bonus plan	9 5	5.1
Total	232.2	192 9
External sources		
Properties sold and leased back	125.6	96.0
Other disposals of properties including future sale and leaseback agreements	17.6	40 7
Increase in long term debt, excluding convertible debentures retired	21.9	18.7
Stock options exercised	4.4	4.4
Stock issued principally upon conversion of debentures	15.2	132 3
Total	184.7	292 1
Total funds generated	416.9	485.0
Funds were used for:		
Dividends	59 5	55.3
Capital expenditures	185 5	237 2
Retirement of convertible debentures	15 1	135 3
Investment in subsidiaries	18 2	.7
Change in other assets	(2.6)	1 0
Total funds used	275 7	429 5
Increase in working capital	141.2	55.5
Increase in other deferred credits, principally tax effects applicable to installment sales	36.8	7.2
Increase in working funds	$178.0	$ 62.7

See 1972 Review of Operations and Financial Information on pages 19 to 26, and 31

Accountants' Report

To the Stockholders and Board of Directors of J C. Penney Company, Inc.

We have examined the balance sheet of J. C. Penney Company, Inc and consolidated subsidiaries as of January 27, 1973 and January 29, 1972, and the related statements of income, reinvested earnings and changes in financial position for the 52 week periods then ended Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

In our opinion, the accompanying financial statements present fairly the financial position of J. C. Penney Company, Inc. and consolidated subsidiaries at January 27, 1973 and January 29, 1972, and the results of their operations and changes in financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the accompanying statistical data on pages 33 to 35 present fairly the information shown therein.

345 Park Avenue
New York, N.Y.
March 20, 1973

Peat, Marwick, Mitchell & Co.

Summary of Accounting Policies

The accounting policies employed by the Penney Company are consistent with generally accepted accounting principles. In those instances in which more than one generally accepted accounting principle can be applied, the Company has adopted the accounting principle that it believes most accurately and fairly reflects the situation, as described in the following paragraphs.

Definition of Fiscal Year. The Company's fiscal year ends on the last Saturday in January. Fiscal year 1972 ended January 27, 1973; fiscal year 1971 ended January 29, 1972. Each year comprised 52 weeks.

The accounts of several subsidiaries, including the insurance companies, are on the calendar year basis.

Basis of Consolidation. The financial statements present on a consolidated basis the results of all domestic and European merchandising operations. Not consolidated are J. C. Penney Financial Corporation, three insurance companies, JCP Realty, Inc., and several small nonretail subsidiaries.

The income before income taxes of J. C. Penney Financial Corporation is included in the statement of income as a reduction of interest expense. The combined income of all other unconsolidated subsidiaries is included as a single item in the statement of income.

The financial statements of insurance subsidiaries are presented in accordance with generally accepted accounting principles. The accounts of insurance subsidiaries are maintained in accordance with accounting practices prescribed or permitted by insurance regulatory authorities, which differ in certain respects from generally accepted accounting principles. Realized investment gains and losses are included in net income.

Sales. Sales include merchandise, services, and licensed departments, net of returns, and exclude value added and sales taxes. Layaway sales are recorded upon receipt of the initial deposit.

Sales are attributed to the operating division that makes the sale to the customer.

Accounts Receivable. Service charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

The allowance for doubtful accounts represents 2 per cent of customer accounts receivable at year end.

Inventories. Merchandise inventories in stores are stated at the lower of cost or market, determined by the retail method. Other inventories in warehouses or with manufacturers are stated at the lower of cost (first-in, first-out) or replacement market.

Properties. The cost of properties includes interest and certain other carrying costs on construction in progress and land held for future use. Maintenance and repairs are charged to current operations as incurred, and improvements are capitalized.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates used in computing depreciation are 3 per cent for store buildings, 2½ per cent to 4 per cent for warehouse buildings, and 10 per cent for furniture and fixtures. Improvements to leased premises are amortized on a straight line basis over the life of the lease or the useful life of the improvement, whichever is shorter.

Income Taxes. The Company uses the "flow through" method whereby income taxes are reduced currently for the amounts of investment credits.

Foreign Exchange Transactions. All foreign currency accounts are translated into U. S. dollars at exchange rates in effect at each year end for current assets and liabilities, at historical exchange rates for depreciation and noncurrent assets and liabilities, and at average exchange rates during the year for income and expense. Gains and losses are charged or credited to operations as incurred.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except for those of stores opened in January, which are written off in the following fiscal year. Catalog printing costs are written off over the estimated productive lives of the catalogs, not exceeding six months. Research and other development costs are charged to operations as incurred.

Pension Cost. The cost of pension benefits has been determined by the entry age normal method. The plan in effect in 1971 used the attained age normal method. Past service liabilities are amortized over 30 years.

Store Space Opened in Fiscal 1972

Date opened	City, state, shopping center	Gross square feet of store space (in thousands)
Penney stores		
Feb. 2	Colorado Springs, Colorado (The Citadel)	226
Feb. 10	*Anderson, South Carolina (Anderson Mall)	126
Mar. 1	*Edina, Minnesota (Southdale Shopping Center)	287
Mar. 1	Goodlettsville, Tennessee (Rivergate Mall)	235
Mar. 8	*Kansas City, Missouri (Blueridge Shopping Center)	209
Mar. 12	*Chattanooga, Tennessee (Northgate Mall)	174
Apr. 6	Meriden, Connecticut (Meriden Square Shopping Center)	171
Apr. 11	*Fort Smith, Arkansas (The Mall)	204
Apr. 12	*Hays, Kansas (The Mall)	53
Apr. 12	*Jennings, Missouri (River Roads Shopping Center)	256
Apr. 12	*North Platte, Nebraska (The Mall)	53
Apr. 12	Northridge, California (Northridge Fashion Center)	277
Apr. 19	*Meridian, Mississippi (Village Square Shopping Center)	103
Apr. 19	Citrus Heights, California (Sunrise Shopping Center)	232
Apr. 27	Wilkes Barre, Pennsylvania (Wyoming Valley Mall)	173
May 17	*San Bruno, California (Tanforan Shopping Center)	255
May 17	Aiea, Oahu, Hawaii (Pearl Ridge Mall)	157
July 19	Garden City, New York (Roosevelt Field Shopping Center)	255
July 26	*Lubbock, Texas (South Plains Mall)	219
July 27	Clarence, New York (Eastern Hills Shopping Center)	150
Aug. 2	*Fairfield, California (Solano Mall)	179
Aug. 2	Knoxville, Tennessee (West Town Shopping Center)	183
Aug. 2	*Pekin, Illinois (Pekin Mall)	140
Aug. 3	Milwaukee, Wisconsin (Northridge Shopping Center)	180
Aug. 9	*Joplin, Missouri (North Park Shopping Center)	108
Sept. 20	*Altus, Oklahoma (Altus Plaza Shopping Center)	18
Sept. 21	*Parkersburg, West Virginia (Grand Central Mall)	146
Oct. 4	*Richmond, Virginia (Cloverleaf Mall)	237
Oct. 4	Enfield, Connecticut (Enfield Square Shopping Center)	160
Oct. 11	Hollywood, Florida (Hollywood Fashion Center)	181
Oct. 18	*Beaumont, Texas (Parkdale Mall)	200
Oct. 25	*Salinas, California (Northridge Shopping Center)	185
Nov. 1	*Linda, California (The Mall)	102
Nov. 1	Sterling, Illinois (Northland Mall)	110
Jan. 3	Indianapolis, Indiana (Washington Square Shopping Center)	179
Jan. 3	*Lakeland, Florida	123
Jan. 3	*St. Petersburg, Florida (Tyrone Square Shopping Center)	215
Jan. 11	*Frederick, Maryland (Frederick Town Mall)	139
Jan. 17	*Saginaw, Michigan (Fashion Square Mall)	175
The Treasury stores		
Oct. 18	†Granada Hills, California	192
Oct. 18	†Woodland Hills, California	192
Oct. 18	†Riverside, California	187
Oct. 18	†Santa Ana, California	192
European operations		
Jan. 16	Ghent (Groene Valley), Belgium	58
Mar. 8	Wijnegem, Belgium	203
Mar. 19	Hasselt, Belgium	145
Mar. 29	Waterloo, Belgium	203
Apr. 20	Milan (Certosa), Italy	114
Oct. 26	Saronno, Italy	84
	Supermarkets (2 stores opened)	55
	Thrift Drug stores (14 stores opened)	140
	Expansions and other additions	114
	Gross store space opened	8,654
	Less stores closed (43)	924
	Increased gross square feet	7,730
	Increased square feet of net selling space	4,324

*Relocation of existing store.
†Includes food supermarket.

"It's a new shape in jackets," says Lois Ziegler (page 16). Lois spotted the trend in Paris, brought it back to the buyer who had it interpreted for Penney. The pants? "They've become a way of life."

Financial Summary 1964-1972

J. C. Penney Company, Inc.
and Consolidated Subsidiaries

	1972	1971	1970	1969	1968	1967	1966	1965	1964
Results for year (In millions)									
Sales	$5,529.6	$4,812.2	$4,354.7	$3,912.7	$3,379.2	$2,927.0	$2,702.8	$2,407.9	$2,155.1
Per cent increase from prior year	14.9	10.5	11.3	15.8	15.5	8.3	12.2	11.7	14.1
Credit sales as per cent of sales*	38.7	36.8	36.9	37.4	35.5	35.4	33.2	31.4	29.2
Income before income taxes and other unconsolidated subsidiaries	311.2	265.6	219.9	231.3	237.3	177.5	156.5	152.1	133.2
Per cent of sales	5 6	5.5	5.1	5.9	7.0	6.1	5.8	6.3	6.2
Net income	162.6	135.7	114.1	114.3	111.5	94.3	82.4	80.7	69.2
Per cent increase (decrease) from prior year	19.8	18.9	(0.2)	2.5	18.3	14.4	2.1	16.6	23.8
Per cent of sales	2.9	2.8	2.6	2.9	3.3	3.2	3.0	3.4	3.2
Per cent of stockholders' equity	16.4	18.0	16.8	18.7	20.6	19.2	18.3	19.5	20.6
Dividends	59.5	55.3	52.9	52.6	46.3	45.8	43.8	43.5	37.8
Increase in reinvested earnings	103.2	80.4	61.2	61.8	65.2	48.5	38.6	37.4	36.9
Depreciation	52.5	45.5	38.4	34.9	28.8	27.0	24.0	20.1	17.3
Capital expenditures	185 5	237.2	213.4	175.8	127.7	111.0	71.4	46.4	40.5
Per share results									
Net income—primary	2 86	2 46	2.14	2 16	2.12	1.78	1.57	1.56	1.35
—fully diluted	2.86	2.43	2 08	2.10	2.08	1.78	1.57	1.56	1.35
Dividends	1.05	1.01	1.00	1.00	.90	.90	.86	.86	.75
Stockholders' equity	19.93	17.55	14.14	12.84	11.56	10.28	9.32	8.58	7.87
Financial position at year end (In millions)									
Assets	2,153.7	1,923.9	1,712.2	1,473.2	1,207.3	953.9	847.0	744.8	667.4
Working funds	732.7	554.7	492.0	407.7	422.1	277.0	297.3	295.7	273.0
Customer receivables—net									
J. C. Penney Financial Corporation	1,043.3	824.9	758.2	674.8	532.5	483.2	439.9	298.7	188.0
J. C. Penney Company, Inc.	67.7	46.5	29.4	25.7	56.7	13.8	12.7	63.0	101.1
Merchandise inventories	1,047.1	879.4	789.5	717.3	616.5	487.0	491.0	396.8	319.7
Long term debt	216.9	210.1	326.7	171.6	125.0	—	—	—	—
Stockholders' equity	1,138.0	989.6	753 3	680.6	611.0	540.7	490.0	451.3	413.8
Stockholders and employees									
Number of stockholders at year end	71,000	68,000	66,000	64,000	59,000	56,000	56,000	55,000	53,000
Average number of shares outstanding (millions)	56.7	54.9	53.1	53.0	52.8	52.6	52.6	52.6	52.6
Number of employees at year end	175,000	162,000	152,000	137,000	119,000	104,000	102,000	88,000	78,000

*Excludes sales of food supermarkets and European operations, which do not offer consumer credit

Operations Summary 1964-1972

	1972	1971	1970	1969	1968	1967	1966	1965	1964
Penney stores—full line									
Number of stores	308	270	240	208	176	141	108	82	52
Net selling space (million square feet)	26.6	22.8	19.4	16.5	13.7	10.4	7.4	5.4	3.5
Sales (millions)	$2,566.8	1,993.9	1,628.1	1,327.0	1,002.0	661.2	477.7	296.5	174.0
Sales per square foot	$ 96.65	87.60	83.77	80.64	73.19	63.39	64.16	55.31	49.81
Penney stores—soft line									
Number of stores	1,335	1,370	1,407	1,438	1,476	1,517	1,548	1,582	1,619
Net selling space (million square feet)	16.9	17.5	18 1	18.4	19.0	19.4	19.5	19 6	19.6
Sales (millions)	$2,084.9	2,079.0	2,119 3	2,156.1	2,105.7	2,050.7	2,042.4	1,964.6	1,875.9
Sales per square foot	$ 123.44	119 11	116.99	116.85	110.68	105.74	104.50	100.35	95.79
Catalog									
Number of sales centers	1,131	1,079	1,019	944	660	637	565	458	405
Number of distribution centers	2	2	2	2	1	1	1	1	1
Distribution space (million square feet)	4.1	4.1	4.1	4.1	2.0	2.0	2.0	1.3	1.3
Sales—mail order (millions)	$ 89.0	76.9	70.9	61 9	57.7	52.5	40.8	32.7	31.7
The Treasury stores									
Number of stores	23	19	13	10	10	6	5	5	5
Net selling space (million square feet)	2.8	2.3	1.5	1.2	1.2	.7	.5	.5	.5
Sales (millions)	$ 284.5	242.3	146.2	127.5	85 3	54.1	48.9	42.7	17.5
Sales per square foot	$ 103.06	105.73	94.49	107.96	72.24	80.64	92.27	80.54	33.05
Thrift Drug stores									
Number of stores	216	205	189	171	157	148	138	131	123
Net selling space (million square feet)	1.3	1.2	1.0	.9	.8	.7	.7	.6	.6
Sales (millions)	$ 132 5	112.2	98.0	83.5	71.9	62.8	55.2	46.0	40.0
Sales per square foot	$ 102 74	95.41	99 62	97.99	89.86	84.20	78.49	72.60	68.89
Supermarkets									
Number of food supermarkets	23	22	23	20	17	16	13	11	6
Net selling space (million square feet)	.3	.3	.3	.3	.2	.2	.2	.1	.1
Sales (millions)	$ 100.2	96 6	88.4	72.4	56.6	45.7	37.8	25.4	16.0
Sales per square foot	$ 304.00	324.52	276.80	263.17	252.54	216.31	233.06	188.20	189.52
European operations									
Number of stores	92	89	92	95					
Net selling space (million square feet)	1.7	1.3	1.2	1.2					
Sales (millions)	$ 271.7	211.3	203.8	84.2*					
Sales per square foot	$ 156.72	168.36	174.08	72.41*					

Catalog merchandise sold through Penney stores is included in the sales of Penney stores Thrift Drug and food supermarkets sales through Penney and Treasury stores are included in the sales of the latter divisions Food sales by European operations are included in that division's sales. The statistics shown above for Thrift Drug stores and supermarkets are exclusive of their operations in Penney and Treasury stores

*Reflects sales of Sarma, S A from July 31, 1969, date of purchase

J. C. Penney Company, Inc.

Directors

Louis L. Avner
President,
Thrift Drug Company

Kenneth S. Axelson
Vice President

William K. Barry
Vice President

William M. Batten
Chairman of the Board

William M. Ellinghaus
President,
New York Telephone Company

Jack B. Jackson
President

Ray H. Jordan
Retired,
formerly President,
J. C. Penney Company, Inc

Juanita M. Kreps
James B Duke
Professor of Economics,
Duke University

Walter J. Neppl
Executive Vice President

Donald V. Seibert
Vice President

Charles T. Stewart
Vice President

George S. Stewart
Vice President

Cecil L. Wright
Retired,
formerly President,
J. C. Penney Company, Inc.

Walter B. Wriston
Chairman,
First National City Bank and
First National City Corporation

Officers

William M. Batten
Chairman of the Board

Jack B. Jackson
President

Walter J. Neppl
Executive Vice President

Robert L. Adair
Vice President and Controller

Kenneth S. Axelson
Vice President and Director of Finance and Administration

William K. Barry
Vice President and Director of Merchandise

Woodrow P. Campbell
Vice President and Director of Operations Studies

Andrew Cumming
Vice President and Director of Personnel

Robert B. Gill
Vice President and General Merchandise Manager of Home and Automotive Lines

Wallis G Hocker
Vice President and General Credit Manager

Galen R Hogenson
Vice President and General Merchandise Manager of Apparel Lines

Baldwin L. Humm
Vice President and Director of Catalog Sales and Operations

Oscar J. Hunter
Vice President and Eastern Regional Manager

Arthur Jacobsen
Vice President and Director of Consumer Financial Services

Lee S. Moore
Vice President,
J. C. Penney Company, Inc and
Managing Director,
Sarma-Penney Ltd

William A. Perry
Vice President and Central Regional Manager

Stanley J. Putman
Vice President and Southeastern Regional Manager

Foster E. Sears
Vice President and Director of Real Estate

Donald V. Seibert
Vice President and Director of Catalog, The Treasury Stores, and International Operations

Charles T. Stewart
Vice President, General Counsel and Director of Public Affairs

George S. Stewart
Vice President and Director of Corporate Facilities and Services

George M. Stone
Vice President and Director of Government and Public Relations

Marvin L. Tanner
Vice President and Southwestern Regional Manager

Robert R. Van Kleek
Vice President and Western Regional Manager

Paul R. Kaltinick
Treasurer

Albert W. Driver, Jr.
Secretary

John B. Hebard
Assistant Treasurer

Paull F. Hubbard
Assistant Treasurer

Archibald E. King, Jr.
Assistant Secretary

J. David Silvers
Assistant Secretary

Elting H. Smith
Assistant Secretary

E. Harlin Smith
Assistant Treasurer

John F. Wood
Assistant Controller

Transfer Agents

Chemical Bank
20 Pine Street
New York, New York 10015

The Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

Registrars

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Continental Illinois National Bank and Trust Company of Chicago
231 South LaSalle Street
Chicago, Illinois 60690

Please direct any comments or questions you may have about this annual report or the Company's operations in general to:

J. C. Penney Company, Inc.
Stockholder Relations Department
1301 Avenue of the Americas
New York, New York 10019

The two young ladies are in JCPenney shirt dresses. The fabric is voile; the styles are classic, feminine, ladylike. Note the white collar and cuffs of the Kitty Foyle look made famous by JCPenney fashion consultant, Ginger Rogers.